Foreign Agriculture

July 25, 1977

Foreign
Agricultural
Service
U. S. DEPARTMENT
OF AGRICULTURE

Sudanese agricultural products are loaded aboard ship for export to foreign markets.

U.S. Meat Industry Set To Tap Overseas Market

In February 1976, the Foreign Agricultural Service gained a new cooperator in its overseas market development program—the U.S. Meat Export Federation, which recently has been exploring possibilities for boosting U.S. meat sales in Japan and Europe. In the following interview, *Foreign Agriculture* talks with Federation President Alan R. Middaugh about the group's hopes and plans for exports of U.S. meat products.

What market development activities has the U.S. Meat Export Federation undertaken since becoming an FAS cooperator?

Our first activity was a market-research and promotion trip last October to the Far East — Tokyo, Hong Kong, and Singapore—which included participation in an FAS-sponsored Red Meat and Poultry Show. Later, during this February and most of March, I traveled with Robert Mannion, FAS Marketing Director for Livestock and Meat Products, to five countries in Europe. We started in London; made three stops in West Germany; and then visited the Netherlands, Belgium, and France.

In all cases, the response was very good, and we have decided to open an office in Tokyo during fiscal 1977 and one in Europe—probably Frankfurt, Germany—before the end of this calendar year. The Federation will set up other offices overseas as the market potential is demonstrated, possibly including one in the Mideast.

What part of the retail market are you aiming at?

Mainly the premium markets for high-grade beef and pork. We don't feel comfortable competing with New Zealand, Australia, Ireland, and some South American countries in markets for manufacturing-type beef, but instead are directing our efforts toward the hotel-restaurant trade. Also, for variety meats, there is a tremendous existing market in Europe, one that we can expand and one in which we can do a great deal of servicing.

Traditionally, American producers have looked upon the foreign market, to a certain extent, as a means of getting rid of products with low domestic demand. Now we have to make people aware that we are going to do a better job in presentation and documentation.

What markets do you consider the best right now for beef and pork?

Japan probably has to be rated as the best market for greater tonnages of both beef and pork. However, we are faced with a significant trade barrier, in the form of a quota system for beef and a variable duty on pork, as well as other nontariff barriers both there and in the EC.

What do you estimate our exports to Japan might total in coming years?

We could probably go from an approximate 10,000 metric tons of beef in 1976 to 30,000 tons 3-5 years from now and to 40,000-50,000 tons in 5-7 years if greater market access is obtained. I would hope that pork sales 3 years from now would be 50 percent greater than the 54,000 tons exported in 1976.

Going the other way—into Europe with variety meats—we have indications that the United States could do half again as much business in 3 years as the 122,000 tons shipped in 1976. Along with increasing sales volumes, we can do a better marketing and packaging job.

In Europe, we have an existing market for variety meats unhampered by nontariff barriers, quotas, and things like that. Beef and pork sales to the EC will be very limited until the EC Commission adjusts its policy to allow imports of third-country meat. And that will take time.

What do foreign consumers look for in beef?

In Japan, basically a well-marbled, Choice, High-Choice, or Prime product—and they have the ability to pay for it. Conversely, the consumer in Europe is looking for probably a leaner type beef; they're very fat conscious and feel our meat has too much marbling and outside fat. On the other hand, the variety meats they import from us are judged to be the best, from a quality standpoint. I'm talking about the livers, tongues, kidneys, beef sweetbreads, lamb sweetbreads, lamb brains, hearts, and other variety meats that are part of the everyday diet in Europe.

Won't we always be a residual market for the EC as long as it is nearly self-sufficient in meat?

True, they're a little more than 100 percent self-sufficient right now. We can't expect great tonnages going into the EC because they raise so much themselves, and their farm blocs are so powerful, although I think that at some point the consumer is going to be heard from regarding food prices, especially for meat.

Currently, a certain amount of trade is going to be directed toward hotels, and restaurants, whether it's the American tourist overseas or the European businessman who has the ability to pay and has developed a taste for U.S. beef. But it's probably going to be a long, long time before we put U.S. beef or pork in the supermarkets of Europe.

What about the veterinary restrictions? I understand we are now getting limited amounts of beef into Germany but that health regulations there keep most U.S. beef out of the market.

The Germans have imposed their sanitary regulations on U.S. plants—the same they impose on Argentina or any other supplier. These are regulations we have had difficulty meeting because their inspection standards don't match ours. A case in point: in the early 1970's, several U.S. plants did considerable construction alterations to service the German trade, only to find

By Beverly J. Horsley, Associate Editor, Foreign Agriculture.

Some Tips From EC Importers on U.S. Meat Trade

The European Community remains a strong market for both U.S. variety meats and horsemeat, says Robert Mannion, Foreign Agricultural Service marketing director for livestock and meat products, who accompanied Alan R. Middaugh on his February-March trip to the EC. Mannion's meetings with meat-trade representatives there also produced a number of suggestions for enhancing that trade. Following are some of the highlights of these findings:

• The European Community imports some 200,000 tons a year of edible variety meats and has no plans to include these items in its beef import and licensing system, since the Community will probably continue to run a large deficit in such products. Nor is it considering stiffened regulations on horsemeat, imports of which reportedly total about 200,000-300,000 tons a year (including live slaughter horses from Eastern Europe)—most for consumption in France, Belgium, and the Netherlands. A large share of these products—about 60 percent of the variety meats and 20 percent of the horsemeat—comes from the United States.

• In France, a large importer reported a demand for frozen sliced beef livers, sliced into portions of about 125 grams, with 50 portions per liver, for the institutional trade. He added, however, that some U.S. beef kidneys have contained too much fat for the European market; other complaints have included too light a color and cuts that are not suitable to the French. This importer also indicated that beef head meat and cheek meat is needed in France but must be lean.

• An official of the French Ministry of Agriculture said that strong demand for imported liver results, in part, because some 40 percent of the beef livers produced domestically are condemned by the French veterinarians. This official also said that the entrance of the United Kingdom and Ireland into the EC has contributed to the Community's more abundant supplies of meat, and that it is now self-sufficient in beef and veal and near self-sufficiency in pork.

• Increasing prices of beef are expected to boost French demand for horsemeat, whose consumption now totals about 1.6 kilograms per person per year. Reportedly, the 20 percent of the French population that lives in Paris accounts for half the horsemeat consumption. One importer of horsemeat said he can use two containers a week, particularly of chilled pistolas, and said that he also would like to buy beef tongues and beef livers. French import statistics show that the country imported 140 million francs worth of horsemeat, chilled and frozen, from the United States in 1975 and 198 million in 1976.

• The European representative of a major international hotel chain said about U.S. beef: "You get it in, and I'll sell it." He would be interested in having menu promotions in his hotel chain if he can get the U.S. beef.

• One of the largest importers of meat in Belgium said that handling, and sometimes quality, of U.S. variety meats has deteriorated in the past few years, and U.S. packers need to do a better job in selection for the market. If the tongues are going for retail use, they should be in one pack; if they are going for manufacturing, another pack is required. There is also reportedly an urgent need for variety-meat specifications: Photographs; descriptions of the products and how they are cut, packed, and trimmed. Importers could order products based on the specifications and any alterations they would like to have. The general feeling seemed to be that—although these importers do use brokers—they would prefer to go directly to reliable suppliers who will prepare product to specification. European importers will pay a premium if they get what they want. This importer also pointed out that telexes are very important in doing busines in Europe.

• The representative of a U.K. frozen food manufacturer said his company uses substantial quantities of U.S. variety meats, particularly beef kidneys, for steak and kidney pie and is increasing production of beefburgers for frozen food outlets. This firm would like to buy trimmed kidneys in 30-pound boxes from the States and also would be interested in skinned and deveined beef livers.

• Representatives of a large German firm that buys some beef from the United States said that of the 125 German meat importers only six or eight purchase from non-EC countries. This company's projections indicate that EC beef and veal production in 1977 will be 5 percent less than in 1976 and decline another 5 percent in 1978.

• A German meatpacker said that his company does considerable business with the USSR, whose prices are very good—for example, pork livers at $450 a ton compared with $700 for those from the United States. But because the packing is poor and there is no standard size shipping container, he does not plan future imports of USSR beef variety meats.

• One Dutch importer, looking for new sources of variety meats, reported that beef hearts sell well in the Netherlands, both for human consumption and pet foods.

• Another Dutch importer said that the Dutch are not happy with the EC regulations on meat imports or the control of the meat industry by the Community. They would prefer the traditional British system, which would let meat prices go free and subsidize the farmer directly. He added that while farmers comprise only 5 percent of the EC population, they are very well organized and get just about what they want. Consumers, in turn, must pay high prices, basically because they are poorly organized and have no spokesperson. □

months later that a complete curtain had come down—they had gone to the expense of altering plants, and, boom, the market was pulled out from under them. So U.S. packers are a little hesitant about making expensive alterations without some guarantee of continued sales to West Germany.

Could you give some examples of the restrictions?

A total separation on the kill floor of what they regard as clean and dirty areas. The kill floors in the United States are designed as large, open rooms without partitions, whereas German plants have partitions separating the live animal when it comes in from when it is put on the rail, still with the hide on, and bled.

Other examples are the extensive physical exams of employees on an annual basis demanded by German regulations, strong specifications on the cleaning of livestock transport facilities, and restrictions against the use of wood in plants. In the United States, wood shavings are at times used as floor material in coolers, and packing plants often have wood beams.

What about the Mideast as a market?

We've had probably more interest from that part of the world in the last 6 months—basically in beef—than anyplace else in the world. We are restricted in no way as far as quotas or other quantitative regulations go; we aren't aware of health regulations that are going to be particularly troublesome, and there's no doubt about their ability to pay.

If there is a problem now, it is one of facilities: you can get product in, whether by surface or by air, but there are teriffic problems with unloading, refrigeration, and coolers. Beef sales there have about doubled each year in the recent past and last year totaled about 350 tons. This region seems destined to become a large market, maybe sooner than we think.

"I think we will continue to dwell heavily on exports of grains and oilseeds—they've been a big part of our trade and balance-of-payments situation. But the export of meat and meat products, contrary to some belief, does not compete with the export of grains."

Many countries are now emphasizing the value-added industries—like production and export of meat rather than exporting the grains and oilseeds. We seem to be stressing the opposite. Do you foresee any change in that situation?

I think we will continue to dwell heavily on exports of grains and oilseeds—they've been a big part of our trade and our balance-of-payments situation. But the export of meat and meat products, contrary to some belief, does not compete with the export of grains. You're going to do one of two things with the grains: use them domestically to feed livestock or ship them overseas for some kind of livestock feed.

So, basically the grain situation is about the same. I do, however, feel that a value-added situation here, where we can run products through packing plants and portion control plants to get the meat products down as nearly as possible to individual portions before export means more jobs here and a higher value product for export.

What about the financial status of the U.S. meat producer? Is it still precarious or improving?

The financial status of the rancher and the cattle feedlot operator is hopefully leveling off. For the last 3 years, or the better part of 3 years, little profit was made, and some significant losses were sustained, often one on top of the other. It was probably the worst condition we've been in for a number of decades. A great number of good operators no longer are in business. Some of the operators that were able to hang on are marginal, struggling for every nickel or dime.

So there's lots of concern . . the kind of concern that makes people point fingers at imports and probably puts a little more emphasis on that than necessary. I think, rather than point fingers at imports, we'd better get busy and point our efforts toward exporting.

But I get the impression that the meat situation is changing now—that although there is plenty for export this year, maybe next year there won't be.

I'm not sure there's that much for export now. We're leveling off in that area. Not only do we see these highs and lows in the United States, but other countries have the very same situation. Currently, we're at the end of a liquidation phase in the United States; so are the French, the British, probably also Australia.

If the situation continues to tighten, it probably will be more difficult to export U.S. meat products because when meat products are inexpensive here, they're more attractive to Germans and Japanese. It's also tougher to export meat or encourage exports in the United States when the consumer is paying significantly more to put meat on the table.

So you might find yourself caught in a bind.

Yes, this is one of the big problems we may face. But we feel we're going to be successful and that one measure of our success is going to be improvement in the situation of cattle feeders, ranchers, and packers. □

U.S. Food Shows Draw Buyers in Germany

Hundreds of potential buyers of U.S. prepared food products attended two trade-only U.S. food shows in West Germany in mid-June, and future sales resulting from the shows are expected to be high.

About 600 tradesmen, caterers, importers, manufacturers and processors of foods, chefs, administrators and food buyers for canteens, hospitals, and various types of associations attended the shows—the first at Hamburg's Inter-Continental Hotel, June 7-8, the second at Berlin's Hotel Schweitzerhof, June 13-14. Eight U.S. exporting organizations and 18 German importers participated.

The 400 acceptances received for the Hamburg show set a record for this type of event. The Berlin show was visited by about 200 persons.

Calling attention to the importance of the German market as an importer of foods, Turner Oyloe, U.S. Agricultural Attaché in Bonn, told those participating in the food shows that West Germany in 1976 imported $15 billion in foodstuffs—$1.8 billion from the United States.

This, he said, made Germany the world's leading food importer—more important than Japan, India, or the People's Republic of China. But, he cautioned, "to expand sales in the German market, U.S. exporters must follow the example of their German counterparts who sell high-priced products because of their superb quality and the high caliber of service provided."

U.S. consumer-food sales to Germany have gained each year in the past 5, with 1976 totals more than double those of 1972. Contributing to this increase were larger exports of poultry and poultry products, walnuts, citrus, orange juice, canned cherries, preserved vegetables, and frozen bakery products.

Although sales at the two shows were reportedly heavy —actual dollar values not being available because of the reluctance of the German importers to release such date — exhibitors consider trade-only shows as a valuable means of making contacts, rather than immediate sales.

One exhibitor said this type of trade-only show enables him to meet executives he would otherwise be unlikely to see, even by calling at their offices.

To facilitate these meetings, visitors — many of whom came to Hamburg and Berlin from Bonn and other cities—wore name tags, keyed by color to a particular trade category. Some of these contacts may enable U.S. firms to obtain German agents.

About 300-400 U.S. products from 48 companies were displayed at the two shows. Turkey products from 10 U.S. firms were exhibited by five participants.

Citrus juice concentrates, packed for family use or distribution through counter dispensers, were also displayed, along with canned fruits, other juices, air-frozen vegetables, fresh citrus, natural and dietetic sweets, soy oils from U.S. soybeans, shortenings, top-quality beef and pork cuts, and potato products.

Also shown were rice, herring fillets, jar-packed mushrooms, honey, maple syrup, meat, seafood, vegetable sauce bases, prepared sauces, spices, preserves, wines, and dehydrated and concentrated vegetables.

In addition to the U.S. and German firms exhibiting, several U.S. cooperatives participated. These included the International Cooperative of Grand Forks, N.D., representing 170 potato producers in South Dakota and Minnesota; Land O'Lakes, Inc., a Minnesota-based dairy and poultry cooperative; and the German-based offices of the California Cling Peach Advisory Board and the California Raisin Advisory Board. □

By Marcellus Murphy, staff writer, Foreign Agriculture.

At left: Samples of U.S. orange juice were available at the E. Breitz booths [H.J. Breitz, extreme right] in Berlin and Hamburg. At right: U.S. Agricultural Attaché Turner L. Oyloe [left] with Herbert Boehndel, of IHAK, a major West German importer of U.S. meats.

Rising Nonfarm Imports Put Sudan Trade in Red

By H. Charles Treakle

Last week, *Foreign Agriculture* looked at Sudan's agricultural potential and projects now planned by several Arab nations to tap that potential. This week, it focuses on Sudan's current farm production and trade situation, as compared with future goals. To combat its trade imbalance, Sudan is expected to increase exports this year and in the immediate future. Of these exports, agricultural products are the most important.

One price of ambitious agricultural development plans in Sudan has been a worrisome trade imbalance since 1973 as imports of capital goods have outstripped exports of farm products. The country sees this imbalance, however, as only a short-term problem that will disappear once planned production advances are realized and its all-important agricultural exports gain accordingly.

Following the first appearance of imbalance in 1973, Sudan's merchandise trade position deteriorated rapidly, and by 1975 the country's exports were less than half the value of imports, which then hovered near $1 billion. This rapid import gain caused a worsening of Sudan's balance of payments, serious enough for the Government to enforce tighter exchange controls.

Preliminary figures for 1976 indicate a narrowing of the trade deficit as a result of the stricter management of foreign exchange, along with a nearly 27 percent increase in export earnings. Sudan's exports are expected to increase still further in 1977 and probably keep on rising as development projects provide more exportable surpluses. Yet serious financial problems could continue to hamper economic activity, and Government foreign-exchange controls may limit imports of consumer and capital goods.

Sudan's recent trade problems are not uncommon to nations with ambitious economic development projects, such as the $5.7-billion 10-year program announced in 1975 by the Arab Fund for Economic and Social Development. (The bulk of this money will be used to spark economic and agricultural development under Sudan's current $6.5-billion 6-year plan, which was launched this month.)

To support these undertakings, Sudan has had to make heavy development expenditures, with short-term financing used for projects not yet at the payoff stage. Accordingly, the largest percentage of imports has gone for investment goods. For instance, in 1975, when the trade imbalance was at its worst, over 80 percent of imports was nonagricultural products, and the bulk of these was capital goods such as crude materials, transport and related equipment, machinery, and chemicals.

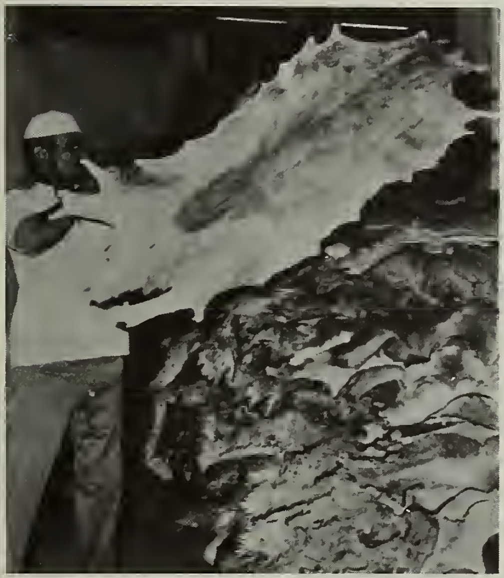
Agricultural imports accounted for almost $170 million, or about 18 percent, of Sudan's total import trade in 1975. And around 93 percent of the farm-import expenditure went for sugar, wheat, tea, coffee, dairy products, and tobacco.

With the Government aiming for agricultural self-sufficiency—and fully expecting to become a large exporter of sugar and wheat—the importance of these products to Sudanese import trade should diminish considerably in coming years. Yet the country may still need to import agricultural products to support livestock-expansion programs, and food supply needs not met domestically.

On the export side, agricultural products have been far the most important earners of foreign exchange, in 1975 bringing in an estimated US $405 million.

Cotton, oilseeds, and gum arabic have long dominated the list of exports. Also important have been livestock and livestock products, including hides and skins, with an 11 percent average of Sudanese exports for the last decade and an especially strong role in the country's plan for future trade.

Mr. Treakle is an agricultural economist, Foreign Demand and Competition Division, Economic Research Service.



Top: Nomadic Shukria tribesmen watering their flocks at a major irrigation canal at Khashm El Girba. Bottom left: Worker stacks cattle hides, important export items for Sudan. Bottom right: Preparing an irrigation canal in central Sudan.

Ranked by percentage of total value, Sudan's leading agricultural exports in 1975 were: Cotton, 44.5 percent; peanuts, 23.3; sesameseed, 8.3; and gum arabic, 5.2. An additional 14.2 percent came from unmilled cereals, oilcake, live animals—mostly sheep and goats—meat, other oilseeds, hides and skins, and small quantities of various other farm products. All told, agricultural items accounted for 95.5 percent of the value of all exports in 1975, and higher cotton prices are expected to boost this share still further in 1976 and 1977.

During 1975, 25-30 percent of Sudan's exports went to the European Community, over 18 percent to Yugoslavia, almost 16 percent to the People's Republic of China, over 11 percent to Romania, more than 6 percent to Hong Kong, 5.3 percent to Japan, and 1.4 percent to the United States.

The U.S. farm imports from Sudan that year were principally cotton, hides and skins, and drug-bearing materials. In the same year, the United States supplied 70 percent of Sudan's imports of wheat, which in turn accounted for about 22 percent of total U.S. exports to Sudan.

This U.S.-Sudanese agricultural trade has been bolstered by much-improved relations betwen the United States and Sudan in recent years—a change also reflected in the development sector's growing reliance on American expertise.

Consequently, Sudan today ranks as one of the leading U.S. trading partners in sub-Saharan Africa. U.S. exports to Sudan—in an uptrend during recent years—exceeded $100 million in both 1975 and 1976. While agricultural products traditionally have accounted for about a quarter of these U.S. exports, their total last year dropped to $25.7 million from $30.8 million in 1975.

During the next few years, the United States will probably continue to ship $25-$30 million worth of farm products to Sudan, but the makeup of this trade is likely to shift to items complementary to Sudan's expanding farm output. On the other hand, if the indicators are correct, U.S. nonagricultural exports to Sudan should grow at a fast pace as Sudan's development plans are implemented.

Agricultural production in Sudan, meantime, continue its historical domination of the country's economy, but so far without the upward momentum envisioned in development plans. In 1976, for instance, farm production is

believed to have increased only 2 percent over 1975's—about equivalent to yearly growth in the recent past.

The total grain harvest was estimated at 3,020,000 tons—5 percent above 1975's—with an increase in coarse grains more than offsetting a slight decline in wheat. Wheat production suffered from low yields, which overshadowed all area gains resulting from a Government policy change initiated several seasons ago to increase wheat plantings at the expense of cotton.

On the other hand, that policy probably was a major cause of the drastic decline in Sudan's 1975/76 cotton production, which at 450,000 bales (480 lb net) was the lowest in 10 years and 50 percent below the previous season's 1,015,000 bales. But cotton export earnings held up during 1976 and early 1977 as a result of large carryover stocks that sold at improved prices.

Cotton, which is planted during June-August and harvested during October - March, had a particularly active marketing season during the first few months of 1977.

In April, the Cotton Public Corporation reported sales for the 1976/77 season of 850,000 bales, of which 630,000 were long staple and 220,000 were medium and short staple. Now, practically all the carryover stocks and most of the 1976/77 harvest have been sold, and orders are being turned down for lack of supplies. Thus, export earnings in 1977 will be surprisingly good, despite the small 1975/76 output.

Influenced by this firm demand for cotton, Sudan is thinking about reversing its long-term policy of gradually reducing area devoted to long-staple cotton. During the 1977 planting season, area in long staple will be increased to 570,000 feddans (1 feddan = 0.42 hectares), and a major effort will be made to improve yields.

At the same time, total cotton output should be bolstered by some 100,000 feddans of medium-staple cotton to be planted this summer on virgin land in new agricultural schemes.

Sesame, another of Sudan's important crops, appears to have leveled off at some 35,000 tons. Production of peanuts in 1976 rebounded 117 percent from the reduced crop of 1975 to total 525,000 tons, but it still was 2 percent below the 1974 record.

Crop yields in Sudan generally are low, with officials attributing this situation to a lack of insecticides, rat infestation, labor shortages, and in some cases, poor management.

Despite these unimpressive results so far, Sudan has enough positive factors working to spark agricultural production and trade advances in the future. The massive inflow of funds for agriculture can help tap Sudan's underexploited resources of arable land, rangeland, and water and probably allow it to become a sizable exporter of many agricultural products.

These new exports will, no doubt, replace Sudanese imports from some of the more distant suppliers and establish Sudan as an important source for Arab imports of sugar, grains, cotton, oilseeds, and livestock and meat products.

So far, however, it does not look as if Sudan's entry as a net exporter will cause any decisive shift in the foreign trade picture. For one thing, North Africa and the Mideast both have fairly high population growth rates that will stimulate demand for food and agricultural products.

And, even more importantly, agricultural imports will be encouraged by the region's tremendous growth in earnings from petroleum; greater governmental interest in distribution of wealth, as well as in diet and nutrition; the recent plateauing of agricultural output in many countries; and stepped-up industrial growth. As long as such factors are stimulating demand for food and agricultural products, Sudan should share in supplying North Africa and the Mideast without displacing other sources of supply.

As Sudan becomes more and more self-sufficient in its agricultural sector, trade opportunities for exporters to Sudan will shift to supplying other development needs. Currently, direct sales opportunities are particularly attractive for heavy equipment for agriculture, construction, and transport. The demand will no doubt increase for processed items, while the ambitious development plans offer investment opportunities and the need for technical and management skills.

"As Sudan becomes more and more self-sufficient in its agricultural sector, trade opportunities for exporters to Sudan will shift to supplying other development needs. Currently, direct sales opportunities are particularly attractive for heavy equipment for agriculture, construction, and transport."

Despite Sudan's potential and its start with well-designed plans, translating plans into harvested produce may be much slower than Western or Arab visionaries realize. For smoothly operating projects can be harassed by inflation-spurred costs, port congestion, and other infrastructural inadequacies.

An example of such problems is Sudan's Kenana sugar project in southern Gezira. This project, originally conceived as the world's largest sugar operation, in July 1975 was estimated to cost $250 million. Now, inflation and unexpected expenses have pushed the estimated cost to $500 million.

On the other hand, there may be no ceiling on what the "funding fathers" are willing to invest in the development of Sudan's potential. Moreover, the Sudanese Government is cooperative and serious about its plans and about attracting foreign capital and expertise. □

U.S. Objectives in World Wheat Trade

The U.S. Government's objectives for improving international wheat trade were outlined in a statement delivered by Brice K. Meeker, Assistant Administrator, Foreign Commodity Analysis, FAS, at a meeting of the International Wheat Council (IWC) in London June 28. The basic objectives are to moderate price swings, to reduce trade barriers, and to enhance world food security. The United States urged the IWC to take the lead in devising new forms of shared action that can be incorporated into a new International Wheat Agreement to reach these objectives.

The United States has three basic objectives for the improvement of international trade in wheat, objectives that are hopefully shared by all wheat trading nations. They include: Moderating price swings, reducing trade barriers, and enhancing food security, especially of poor nations.

These objectives can only be reached through new forms of shared action. The International Wheat Council must take the initiative in devising new forms of shared action for incorporation into a new International Wheat Agreement. And the time to begin is now.

The Carter Administration already has indicated to the world community, in many forms and several forums, that it wants to work with other nations toward developing agreements designed to expand and improve the framework for international trade in agricultural products.

This has been a central theme of Secretary of Agriculture Bergland in conferences with other ministers in Washington, at meetings in Ottawa, and in the Far East.

This is a new direction in U.S. policy. We are giving priority attention to achieving an arrangement on wheat that would provide for the expansion and liberalization of trade, moderation of price fluctuations, and increased food security, including an international system of nationally held grain reserves.

To do this, the United States proposes exploration of an agreement which would incorporate the following concepts:

- That all major grain trading nations—exporters and importers — would accept meaningful obligation for reserve stocks, with common guidelines for acquisition and release;
- That the participating nations agree to measure to facilitate adjustment of consumption and production in response to world supply conditions.

The objective should be to reduce extreme price fluctuations around the long-term equilibrium price. We do not want an agreement that would attempt to increase the average price of wheat above its long-term equilibrium level, that is, the level

USSR Vegetable Oil Output Cut in 1976

A sharp drop in Soviet sunflowerseed oil output in calendar 1976 has cut the country's total oil production, despite a significant increase in soybean oil output.

USSR vegetable oil production from State-held reserves of oilseeds (those procured from the farms by the State) totaled nearly 2.6 million metric tons in 1976, a dip of 500,000 tons from the 1975 level. Production from all oilseed holdings reached 2.8 million tons, also lower than that of the preceding year.

The decrease was primarily the result of a 37-percent drop in sunflowerseed oil output to 1.4 million tons—compared with 2.2 million tons in 1975—because of a drop in sunflowerseed production for the past 2 years. In 1975, a drought over much of the growing area cut yields, while the 1976 crop was damaged primarily by late harvesting under severe conditions and disease exacerbated by wet, cool weather—particularly in the Ukraine and Moldavia.

Only a limited increase in sunflowerseed oil production is forecast for 1977. Prospects for the 1977 sunflowerseed crop appear good, although much of the estimated 4.6-million-hectare area was planted a week later than normal. Seed from the new crop will not be available for processing until mid-September, too late to influence significantly oil production for 1977.

A sharp gain in soybean oil output—15 times the 1975 level—partially offset reductions in sunflowerseed oil production, but did not fully compensate for those losses. Soybean oil output of 323,000 tons suggests the Soviets must have processed between 1.8 million and 1.9 million tons of soybeans in 1976, with all but about 400,000 tons of this amount imported. Soybean oil production in 1975 was 21,900 tons.

Despite concentrated efforts by the Soviets to increase domestic soybean production, prospects are sharply limited by land and climatic considerations and by better returns from alternative crops. Nearly all soybeans are grown in the Soviet Far East and are subject to weather that is often too cold or too wet. A small share of soybeans is grown in the Ukraine, North Caucasus, and Kazakhstan. In these regions, soybeans must compete with more profitable crops. □

By Judith G. Goldich, economist, ERS.

required to provide reasonable returns to efficient producers.

In September 1975, the United States tabled a proposal for an international reserve stocks system. At that time, the use of quantitative triggers for coordinated stock actions was advocated. We are now prepared to cooperate in developing a reserve agreement in which world prices would be a trigger for stock action, hoping this will help move negotiations forward.

There does seem to be consensus on the usefulness of coordinated reserve stocks based on price indicators, but this is not enough. We still must determine whether a practical and equitable system can be developed, taking into account the difference in systems of the countries that would participate. Until we find out whether it can, meaningful negotiations on reserves for price stabilization purposes cannot begin.

There already has been some technical examination of this question, both in the work of the Preparatory Group to date, and in some informal sessions recently held between certain wheat exporting countries. However, further examination in the next 2 or 3 months is essential before a judgement can be made as to whether a basis exists for negotiations of reserves provisions.

The United States has taken steps to create a limited domestic reserve. Under this program, producers will carry more grain in permanent storage than would otherwise be the case. The framework established by this new step was in large part designed to facilitate U.S. participation with other nations in an international system of reserves. The United States could be flexible in adjusting its reserve program to accommodate a system for joint international actions.

Reserve stocks are a first line of defense against excessive price swings. But national policies that prevent adjustments of consumption and production in response to world supply conditions are an important source of price instability in world markets. Therefore, if an effort to reduce price swings is to be durable over time, we must also develop cooperative measures to allow such adjustments. Two particular areas of potential cooperation deserve special attention—utilization of wheat for feed and industrial purposes, and the availability of supplies to the world market.

The utilization of wheat for feed and industrial purposes should be allowed to increase when wheat supplies become temporarily burdensome and to decrease when supplies are tight. This will assure that more wheat is available for essential human consumption, especially in developing countries, during periods of shortage. Through joint actions, the magnitude of such adjustments could be enlarged. This would bring greater stability and security to the world market. This should be an additional area for negotiation.

With respect to the availability of supplies to the world market, we must also consider provisions in a new agreement on the application of export restraints and perhaps even production itself.

The United States attaches great importance to improving the food security of poor nations. Effective measures to reduce extreme price swings in the world wheat market would have important benefits for those developing countries that either regularly or occasionally have large food deficits. These benefits would likely be greater than those which could be expected to result from some special measures aimed solely at developing countries. Nevertheless, special measures for these countries may be needed.

Price should have a role in indicating the need for joint action on stocks and on measures influencing utilization and the availability of supplies. In previous meetings of the Preparatory Group, the United States has consistently taken the position that the traditional form of price provisions does not appear capable either of being negotiated or of being carried out. We continue to believe that obligatory floor or ceiling prices cannot be both equitable and workable.

It is also necessary that any agreement on wheat be consistent with efforts now under way to reduce barriers to grain trade. An agreement that uses reserve stocks to moderate price swings cannot be regarded as a substitute for permanent reductions in barriers to trade.

Finally, the United States will not be in a position to carry a burden of short-term adjustments as large as that which the world became accustomed to in prior decades. At times, this burden has taken the form of extreme stress upon the orderly flow of supplies of grains for users within the United States. And at times the burden has taken the form of an umbrella in the world market under which other exporters have taken a large share of that market.

World Cotton Prices Decline Sharply

Cotton prices in world markets have dropped significantly over the past 2 months. Beginning the second half of March 1977, quotations in key markets—Liverpool, Bremen, and Osaka—have drifted steadily lower, so that by July 7 some growths were quoted as much as 20 cents per pound below March 24 levels. The major factors behind the decline are weaker-than-expected textile demand in some countries and the favorable 1977/78 cotton production outlook. Prices for cotton to be delivered in the new cotton marketing year beginning August 1, 1977, have remained firmer and U.S. sales have been heavy for the new season. U.S. cotton has generally been competitively priced.

Prices for both U.S. and competing cottons have fallen in the north European and Osaka markets. In northern Europe, U.S. SM 1-1/16" (Memphis territory), which was quoted at 87.50 cents per pound on April 14, had dropped to 71.00 cents by June 16. The Cotton Outlook "A" Index, a price barometer that averages the five cheapest of 10 standard growths of the SM 1-1/16" description, settled at 70.05 cents per pound, down from 86.45, but prices were marked nominal.

Osaka prices, available only through June 2, indicate U.S. SM 1-1/16" (Arizona) was priced at 74.50 cents per pound, down from 82.50 cents on April 14. Asian markets account for

---

By Christopher E. Goldthwait, economist with Foreign Commodity Analysis, Cotton, FAS.

These are conditions that cannot be expected in the years ahead. Continued growth of world trade, including a reasonable U.S. share of such growth, have become extremely vital not only to U.S. agriculture but to the U.S. economy. A new agreement needs to take account of these concerns and must ensure that the burdens of providing greater stability to the world market are equitably shared.

In conclusion, the United States believes that negotiations of a new international wheat agreement must be pursued. We are optimistic that progress can be made, and we hope that the Council can agree at this time on the next steps to be taken.

On the concluding day of the meeting, the Council affirmed its determination to take all necessary steps for the active preparation of a new international arrangement to replace the current agreement, which expires on June 30, 1978.

To this end, it was agreed that the Preparatory Group, which is responsible for examining the possible basis for a new international agreement, would intensify its work and report to the next session of the Council at the end of November.

At that time, the Council will review progress and make a decision on whether or not to convene a negotiating conference early in 1978. □

Greece's Grain Crop Drops

Greece's winter grain harvest is forecast to be sharply below last year's good crop because of drought damage. Wheat production is expected to decline 500,000 tons from last year's record 2.4 million, and barley production will likely fall by 200,000 tons from the 950,000 harvested in 1976. The short wheat crop is expected to result in curtailment of virtually all wheat exports in 1977/78 (300,000 tons in 1976). Consequently, corn imports in 1977/78 (July-June) are expected to climb to 1.1 million tons from 850,000 in 1976/77. □

75 percent of all U.S. cotton exports.

New crop prices have fallen only about half as much as prices for the cotton remaining for sale during the current season, partly perhaps because they were never as high. In northern Europe, U.S. SM 1-1/16" (Memphis territory) fell 8.50 cents to 69.25 cents.

The decline in prices for cotton still remaining available from the 1976/77 crop, aside from the fact that mills by June had largely purchased their requirements, may be due to the failure of textile demand to grow as rapidly as had been thought likely in several major importing countries.

In Europe, mills have yet to recover from the textile recession that hit most countries during 1974/75. In Japan, the world's largest cotton importer, a softening in demand and structural problems in the textile industry led to a voluntary plan that took 30 percent of the cotton spindles out of operation for the 3 months ending June 30. The cutback has now been extended for an additional 3 months. Another factor which has softened raw cotton demand has been resistance to higher yarn prices.

Early reports from the major cotton producing countries, including the United States, indicate that world cotton plantings for 1977/78 could expand 6 percent over those of 1976/77. Weather conditions have generally been very favorable so that the production outlook has somewhat alleviated spinner concern over small world stocks. The markets have been influenced by forecasts of increased production including commercial forecasts of a larger U.S. crop of about 12.5-13 million bales, up from 10.6 million in 1976/77.

U.S. export sales of the coming 1977/78 crop remain strong. During mid-March through June, net sales totaled nearly 2 million bales, including 161,000 during the last week reported, June 27-July 3. Total export sales for the new season totaled 2,-369,000 bales on the latter day. In contrast, transactions for the current season have involved a number of buy-backs and cancellations; the total export commitment rose only 200,000 bales from April 17 to June 12.

The behavior of cotton prices during this 2-month period is quite different from that of 1 year ago. In April 1976, when news of various crop developments began to foreshadow the tight 1976/77 supply situation, prices began a dramatic 3-month rise. World cotton prices are now slightly under those of a year ago.

The future direction of prices will depend on, among other things, whether or not the expected larger crop materializes. To date, conditions have been favorable in most nations and no major producers have experienced serious setbacks.

If the recent decline in prices continues, Southern Hemisphere farmers, who do not plant until July-September or even later, may seed smaller area than was anticipated earlier.

Consumption prospects and competition from man-made fibers will also have an impact. □

Foreign Agriculture

VOL. XV, NO. 29, July 25, 1977

Bob Bergland,
Secretary of Agriculture

Dale E. Hathaway, Assistant Secretary for International Affairs and Commodity Programs

Editorial Staff:
Kay Owsley Patterson, Editor; Beverly J. Horsley, Assoc. Editor; G.H. Baker; Marcellus P. Murphy; Aubrey C. Robinson; Isabel A. Smith; Lynn A. Krawczyk.

Advisory Board:
Richard A. Smith, Chairman; Richard M. Kennedy; J. Don Looper; Larry B. Marton; Brice K. Meeker; Jimmy D. Minyard; Steve Washenko.

The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of this Department. Use of funds for printing *Foreign Agriculture* has been approved by the Director, Office of Management and Budget, through June 30, 1979. Yearly subscription rate $34.35 domestic, $42.95 foreign, single copies 70 cents. Order from Superintendent of Documents, Government Printing Office, Washington, D.C. 20402. Contents of this magazine may be reprinted freely. Use of commercial and trade names does not imply approval or constitute endorsement by USDA or Foreign Agricultural Service.

U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250

PENALTY FOR PRIVATE USE. $300
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101

U.S.MAIL

First Class

0006 USTRRE505A422 10001 0001
USDA/TRI-AGENCY READING ROOM
RM 505 GHI BLDG
WASHINGTON DC 20250

Malaysia Expands Cocoa Production and Exports

Encouraged by current high prices, Malaysia is steadily expanding production and exports of cocoa, the new wunderkind of the country's agriculture.

Crop area soared from approximately 16,390 hectares in 1971 to about 38,851 in 1976 with cocoa bean production in the latter year estimated at around 22,000 metric tons, of which about 77 percent was exported. On the basis of present plantings, Malaysia's production should reach at least 30,000 tons by 1980.

This will hardly put Malaysia in a class with the Big Four producers — Ghana (350,000 - 400,000 tons), Brazil (250,000), Ivory Coast (240,000), and Nigeria (200,000)—but most experts feel that long-term prospects for increased cocoa planting in Malaysia are bright because production in Ghana and Nigeria has been trending downward.

Cocoa technology is not well advanced in Malaysia, but the management system there is capable of putting new technical findings into action. Moreover, with the good growing conditions in the country and research now under way there is every reason to expect that targets will be reached.

Research has particularly zeroed in on improving bean quality by reducing the acidity level, which is the principal problem confronting the producers.

Malaysian beans are currently selling at a 10-ercent discount relative to Ghanaian beans because of the high acid content. Chocolate manufacturers claim that this prevents Malaysian beans from being blended at rates of more than 10 percent without adversely influencing the quality of established chocolate products. The acidity problem is common to all States in Malaysia and is most acute in the major cocoa development area of Hilir Perak. The increasing quantity of Malaysian beans entering world markets has heightened the urgency solving the problem.

Recent research under the aegis of the cocoa quality subcommittee has reduced the acidity of the beans during later stages of fermentation, but the strength of the chocolate flavor has been somewhat weakened in some low-acidic samples.

Another emphasis is bean processing. At present, some cocoa small-holders are still treating their beans in a primitive way that tends to make beans mouldy and taint chocolate products.

Some 66 percent of the cocoa area, or 25,698 hectares, is in peninsular Malaysia, with 9,915 hectares in Sabah, and the remaining 3,238 hectares in Sarawak. The crop is expected to gain further momentum in the next few years, with total hectarage expected to reach 82,154 by 1980 under the third Malaysia Plan (1976-80). The area in peninsular Malaysia is about equally divided between large estates and smallholders.

The Federal Land Development Authority (Felda) has developed about 1,578 hectares of cocoa on its smallholdings in Kota Gelanggi, just north of the Jengka Triangle, and hopes to plant another 485 hectares by the end of the year. The first lot of 40 hectares came into production in January 1977.

Cocoa has traditionally been planted with coconuts on coastal soils. It was only in the early seventies that the cultivation of the crop on inland soils on a commercial scale gained momentum. Because of relatively easy planting methods, small overhead costs, and attractive returns, many estates are seriously thinking of diversifying into cocoa in much the same manner as many rubber plantations were converted to oil palm.

It has been estimated that at current prices, profits range between $3,700 and $4,940 per hectare, compared with a profitability of about $1,925 for oil palm and $640 for rubber.

Some Malaysian cocoa experts feel that current high prices may hold up for another 3 to 4 years, despite the likelihood of a rebound in African production, which slumped during 1976/77 causing prices to rise. The risk implied, however, has not deterred Malaysian enthusiasm and apparently there will be no turning back. ☐

By Theodore R. Freeman, former U.S. Agricultural Attaché, Kuala Lumpur.